



FedFin Client Report

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Powell Takes Democratic Regulatory Fire, Anti-Inflation Ammo from GOP

Client Report: **FEDERALRESERVE63**

Executive Summary

Signaling a tough challenge for a second Powell term, Senate Banking Chairman Brown (D-OH) today said, "It's time to try something different," also joining Sen. Warren (D-MA) lambasting Mr. Powell's role in what they characterize as risky big-bank regulatory relief. Mr. Powell sought to defend himself by saying that Fed actions have not "weakened" big-bank capital, but it is unclear if this will help his appointment or if this pressure further delays any action on the SLR senior Democrats will decry. Much in today's hearing revisited issues explored at yesterday's HFSC session ([see Client Report FEDERALRESERVE62](#)), with Republicans strongly disputing the extent to which inflation will prove transitory and fearing the Fed will not be able to act quickly enough if it is not. Mr. Powell made it still more clear that he is agnostic on the need for CBDC, saying for the first time that he would wish to see a strong Congressional and social mandate before initiating a U.S. digital currency. Both Republicans and Democrats pressed the Fed chair on continuing MBS purchases, with Mr. Powell for the first time agreeing that they might have some house-price impact even as he gave no sign that the Fed will do more than think about tapering for some time to come. Asked about his greatest systemic-risk fear, the chairman targeted cybersecurity.

Analysis

Opening Statements

Chairman Brown criticized the Fed for rolling back "important safeguards" during Mr. Powell's tenure, arguing that this has allowed banks to spend more on capital distributions and executive compensation. Urging a strengthened Community Reinvestment Act (CRA), he also worried about the creation of megabanks and the purchase of housing by private equity firms.

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Ranking Member Toomey (R-PA) warned that the Fed's independence and credibility may be "transitory" if it does not stop wading into "politically-charged" areas such as climate change and racial justice. He urged the Fed instead to focus on controlling inflation, also questioning why the Fed is still buying MBS.

Testimony

Chairman Powell reiterated yesterday's testimony.

Q&A

- **Financial Regulation:** Chairman Brown and Sen. Warren criticized Mr. Powell for what they describe as weakened regulation during his tenure, with Chairman Brown urging Mr. Powell to change the way he thinks about regulating big banks and pointing specifically to revisions to the stress capital buffer and CCAR. He asked why Mr. Powell has opposed higher capital requirements and the use of the CCyB in curbing "runaway" executive bonuses and stock buybacks; Mr. Powell believes that the strength of stress tests has been maintained and big banks are well-capitalized, noting that he would deploy the CCyB if necessary. Sen. Warren highlighted changes to the Volcker rule and living will requirements as examples of weakened regulation; Mr. Powell does not believe that the Fed has weakened capital requirements for banks, countering that the stress capital buffer raises them. He also argued that clarifying the Volcker rule made it more effective and, although the Fed has not done anything to make living will requirements stronger over the past four years, the Fed decided not to require a full re-submission of living wills every year for the largest banks because the marginal gains from doing so diminished significantly.
- **Housing:** Sen. Toomey worried about the unintended consequences of high levels of MBS purchases on the housing market and Sen. Cortez Masto (D-NV) asked how much of the rise in housing prices is due to them. Mr. Powell believes that, although the difference between Treasury and MBS purchases is minimal, MBS purchases are somewhat more supportive of housing. Sen. Warnock (D-GA) announced that he is introducing the Real Estate Valuation Fairness and Improvement Act with Chairman Brown and Sen. Klobuchar (D-MN) to address racial disparities within the appraisal market. The House version of this bill was reported out of HFSC by voice vote in April.

- **CBDC:** Sen. Toomey asked if CBDC would require congressional approval, noting that he remains unsure what problem CBDC would solve; Mr. Powell reiterated that although he is undecided on whether the benefits of a CBDC outweigh the costs, the Fed would want Congressional authorization and social support. Sen. Lummis (R-WY) asked if both stablecoins and crypto would be unnecessary in the case of a CBDC, noting that stablecoins and CBDC are similar to the dollar for payments. Mr. Powell generally agreed, noting also that crypto aspired to be a payment system – it just failed. He reiterated that, like MMFs and bank deposits, stablecoins need regulation.
- **Climate Risk:** Sen. Smith (D-MN) highlighted what she believes is systemic risk posed by climate change, asking about the role of the Fed; Mr. Powell noted that good climate-risk data are foundational and that disclosures will be important after these data are available. Although the Fed can help with research and data collection, Mr. Powell maintained that disclosures remain firmly within the SEC’s jurisdiction. Sen. Smith also asked what the Fed has learned from the ECB’s approach; Mr. Powell noted that climate stress scenarios from the NGFS are proving to be a profitable exercise. The Fed is in the process of looking “carefully” at these scenarios; Mr. Powell believes that the Fed will ultimately move in that “direction.”
- **Cyber Risk:** Sen. Ossoff (D-GA) asked about the greatest systemic threat to financial stability over the medium term; Mr. Powell believes that this is cyber risk.
- **NBFI:** Sen. Ossoff asked about the level of risk in the non-bank financial sector; Mr. Powell acknowledged that structural and regulatory reforms are needed, particularly in regard to MMFs. He reiterated that the Fed is also investigating whether the Treasury market needs structural strengthening.
- **CRA:** Chairman Brown as well as Sens. Smith and Warnock pressed for a modernized interagency CRA rule; Mr. Powell noted that the Fed is resuming interagency discussions with the OCC and FDIC, reviewing comments on last year’s Fed proposal ([see FSM Report CRA30](#)). He hopes that the FDIC will join in these conversations.
- **LIBOR:** Sen. Tillis (R-NC) asked if AMERIBOR is a reasonable alternative benchmark for regional and community institutions; Mr. Powell reiterated that market participants may choose their rates.